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TELE·MEDIA CORPORATION

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August 30, 1993 AUG 31 1993

Via Federal Express

Federal Communications Commission
Office of the Secretary
1919 M Street, Room 222
Washington, DC 20554

92-266

RE: **Tele-Media Corporation Comments in Response to Notice of Proposed Rulemaking - Small Systems Burdens**

Gentlemen and Ladies:

Enclosed please find an original and nine copies of comments filed on behalf of Tele-Media Corporation in response to the Notice of Proposed Rulemaking - Small Systems Burdens.

Should there be any questions, please do not hesitate to call.

Sincerely yours,

Jonathan P. Young

Jonathan P. Young
Corporate Attorney

Enc.

cc: Jon A. Allegretti
Allen C. Jacobson, Esq.
Steve E. Koval

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BEFORE THE

FEDERAL COMMUNICATIONS COMMISSION

Washington, DC 20554

In the matter of:	)	
	)	
Implementation of Sections of the Cable Television Consumer Protection and Competition Act of 1992	)	MM Docket No. 92-266
	)	
Rate Regulation	)	

COMMENTS

Tele-Media Corporation

Date: August 31, 1993

I. Introduction/Background

The Tele-Media organization, ("Tele-Media") was founded in October 1970 by two cable pioneers, Robert E. Tudek and Everett I. Mundy. These two gentlemen still actively participate in the overall operation and management of the companys' cable systems. Tele-Media is a Multiple System Operator ("MSO") with approximately 450,000 equivalent basic subscribers. Tele-Media operates approximately 170 cable systems in 17 states. Of the 170 systems, 87 (or over half) have less than 1,000 subscribers, meeting the criteria for a small systems set forth in the Cable Television Consumer Protection and Competition Act of 1992 (the "1992 Cable Act"). Another 50 systems have between 1,000 and 3,499 subscribers. These numbers represent almost one-half of Tele-Media's subscribers. Historically, Tele-Media has either acquired or originally built lower density, rural systems and is typical of many small and medium sized operators in the cable industry.

II. The FCC should extend relief to all small systems regardless of whether they are owned independently or by an MSO .

The problems faced by independent and multiple system operators (of all sizes) operating small cable systems (defined under the 1992 Cable Act as under 1000 subscribers) are basically the same. Although the largest MSOs, when operating small systems, may be able to take advantage of the operating efficiencies associated with their size, the advantages are outweighed by the burdens of the operation of any small cable system.

Small cable systems are by nature found in classic cable communities, which are typically rural, low density, and unable to receive many, if any, broadcast signals over the airwaves. They are among the oldest cable systems in operation in the United States. Often the technology in use that is a couple of generations removed from that in existence today. Because of the low number of subscribers these systems are among the most expensive to operate, thus it is very difficult to get a return on investment and to service debt in the small systems. This situation will be exacerbated if relief is not granted to all small system operators.

Given the nature of small cable systems, operating efficiencies of a large cable operator, have little effect. For example, the ability to buy programming at a reduced cost per subscriber is clearly an operating efficiency with respect to the larger MSOs, but these savings are only a part of the costs of operating a small system. In addition, it is unclear to what degree programming discounts apply across different channels and how they apply to different sizes of operators. Likewise, the ability to purchase equipment in larger lots at a lower price per unit is an advantage to an MSO. The impact in this case is also unclear.

The largest operating costs are those associated with the operation of the physical plant. Even the largest operators cannot avoid the fact that small cable systems are really only small when you talk about the number of subscribers and the density of the system. These systems are proportionally extremely large when you look at the miles of cable plant involved relative to the number of subscribers. Tele-Media's small systems, company wide, have a density somewhere between 12 and 45 homes per mile. Even at 45 homes per mile, a system is still considered very rural, as there are hundreds of homes passed per mile in a city, like Pittsburgh, Philadelphia or New York. If we examine a cable system of 1000 subscribers (the most subscribers possible in the definition of small systems) we can determine the number of miles of plant that may be involved. Assuming 45 homes per mile and an average penetration of about 70% (approximately the average penetration throughout the cable industry and Tele-Media) a 1,000 subscriber cable system will have about 32 miles of cable plant; quite a lot for the number of subscribers (about 31 per mile). Such a large amount of cable for a system creates quite a maintenance problem for the operator. It is a problem that requires a great deal of technical and customer service support.

Adding to the problem of the physical size of the cable system is the age of the system. As stated earlier, these systems tend to be older, for a number of reasons. The most important is the cost associated with upgrading or rebuilding. Whether it is possible to upgrade or rebuild a system is really a question of whether the subscriber base produces the cash flow necessary to attract the financing necessary to build, expand and upgrade, and whether the operator feels that he can obtain a fair and reasonable return on his investment. Over the past three years, raising capital throughout the cable industry has been very difficult and when it has been possible it has been very expensive. As will become clear later, an MSO like Tele-Media has a difficult time raising capital in general and when lenders look at projects which include small systems they are even more reticent to lend. This also is exacerbated by the potential inability to pay off existing loans on capital used to finance the acquisition, rebuild or upgrade of these systems.

Because small systems are upgraded or rebuilt infrequently, there is an increased maintenance cost associated with keeping these systems running. The age of some systems makes replacing some parts and equipment almost impossible. In some cases the necessary parts are not available and a substitute, which may be more expensive, is necessary. The other alternative is to buy used replacement parts, but the life span and reliability of these is speculative and continues the cycle of maintenance difficulties.

The location of small systems also affects them. Many of these small systems are located in rural areas where television broadcast signals are unavailable or difficult to receive. Cable operators, who have historically been relied upon to provide a valuable service, must use more sophisticated antennas or microwave or satellite technologies to bring broadcast television service to rural communities. This, of course, increases costs significantly and like the factors discussed above, are not mitigated by the size of the operator.

III. A subscriber cap on MSOs operating small systems should be at least one million.

Tele-Media has always been in agreement with the FCC's original position on small systems, that small system operators should be treated alike, whether an independent operator or an MSO. If, however, the FCC determines that it is in the interest of the subscribers and the cable operators to limit the reduction of burdens to small systems owned by an MSO of a certain size, Tele-Media feels that the appropriate number of subscribers is a minimum of one million.

If the FCC does determine that an MSO has advantages that makes the reduction of burdens to its small systems inappropriate, then the FCC has to evaluate those provisions across the spectrum of sizes of operators. Clearly the advantages of a small MSO versus medium sized and large MSOs must be considered. There are advantages in the form of programming and equipment purchases and financing. The numbers related to programming and equipment purchases are very difficult to quantify for the purposes of these comments.

Each programming vendor has different types of agreements, some of which make provisions for numbers of subscribers, some don't; others have most favored nations clauses for some operators, others involve long term agreements, the terms of which are not public. Equipment vendors also use a variety of types of contracts and pricing formulas. The only thing that is clear is that the very largest operators, those over a million subscribers, seem to get the best deal with regard to discounts in programming and equipment.

The most important difference between the very largest operators and those of Tele-Media's size and smaller is in the area of obtaining capital. While newspapers and trade publications frequently report the success of large operators' financing efforts, Tele-Media has struggled. As a private company without a public equity or public debt aspect to the capital structure of any of our affiliated operating companies, Tele-Media's sources of capital are primarily banks (and to a lesser extent insurance companies) for senior debt capital and venture capital funds for subordinate debt and equity capital. At each layer of our capital structure, senior, subordinate and equity, Tele-Media is required to pay a cost of capital in excess of the amounts paid by telephone companies and larger cable companies. By way of example, many of Tele-Media's bank loan agreements provide for a higher interest rate due to the smaller size of the transactions done with Tele-Media versus larger cable operators. Furthermore, banks look for repayment in eight years while the public market lenders (e.g.

bonds) utilized by phone companies and large cable companies allow repayments of 10, 15 and in some cases, 20-30 years. With respect to subordinate debt, Tele-Media pays an interest rate typically in the high teens to mid-twenties. In contrast, larger MSO's have paid as little as 9% for subordinate debt (see for example, the recent subordinate financing of Continental Cablevision). With respect to equity capital, while public institutional investors, investing in larger MSO's, are generally satisfied with a return on investment in the teens, private venture capital funds have historically looked for Tele-Media to provide a return on investment in excess of 30%, sometimes even exceeding 40%. Recently, some of these firms have suggested that they would consider lowering their equity return expectations to between 25 and 30%. However, these amounts still exceed the amounts paid by larger cable companies and telephone companies. The aggregate effect of the foregoing is that smaller operators, including mid-size MSO's such as Tele-Media, are required to pay out a significantly greater portion of their monthly revenue for higher cost capital than telephone companies or larger MSO's. Availability to obtain capital is the most significant factor in determining where to place a subscriber cap in the reduction of small systems burdens. Availability of financing can help in mitigating the problems of operating small systems because systems may be rebuilt and upgraded at a lower cost.

IV. Conclusion

The FCC was correct in its initial determination that Congress did not intend to differentiate between MSOs (of all sizes) and independent operators when reducing burdens on the operators of small cable systems. As Tele-Media has tried to illustrate through these comments, the operation of small cable systems is difficult and costly and even the efficiencies of the largest cable operators are offset by the realities of small systems operators.

Subscribers in the areas served by small systems have been well served by cable operators. Over the past 20 years Tele-Media has provided excellent service to smaller, rural communities. We have enhanced the channel capacities of our small systems and built out to very low density, rural areas. Subscribers have come to expect excellence and Tele-Media has strived to provide it. Like citizens in larger towns and cities, rural subscribers expect and deserve to be part of the telecommunications superhighway, receiving more and better channels and program offerings and new and exciting technology. Cable operators operating small systems are in a terrific position to make the superhighway a reality in rural communities. But, it must be affordable. Operators must receive a return on their investment. Reducing burdens and understanding the increased costs and extenuating circumstances associated with the operation of small systems will make continued service, expansion and upgrades possible.

Respectfully Submitted,

Tele-Media Corporation

By: Tele-Media Corporation of Delaware

By:________________________________
Allen C. Jacobson
Vice President of Legal Affairs